INTERPROVINCIAL PIPE LINE COMPANY

ANNUAL REPORT 1967

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Annual General Meeting—2:30 p.m., April 10, 1968, Confederation Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario

INTERPROVINCIAL PIPE LINE COMPANY

1967 ANNUAL REPORT

Incorporated by Special Act of the Parliament of Canada, April 30, 1949

Directors

T. S. Johnston	*Chairman of the Board, Interprovincial Pipe Line Company, Toronto*
D. G. Waldon	*President and Chief Executive Officer, Interprovincial Pipe Line Company, Toronto*
D. R. Walker	*Retired, former Vice-President and Director, Wood, Gundy & Company Limited, Toronto*
Trevor F. Moore	*Vice-President and Director, Imperial Oil Limited, Toronto*
W. Harold Rea	*Chairman of the Board, Great Canadian Oil Sands Limited, Toronto*
R. H. Reid	*President and Managing Director, London Life Insurance Company, London, Ontario*
J. W. Hamilton	*Director, Imperial Oil Limited, Toronto*
R. D. Parker	*Consultant, former Senior Vice-President and Director, The International Nickel Company of Canada, Limited, Toronto*
J. Willis Morgan	*Vice-President, The British American Oil Company Limited, Toronto*
J. A. Cogan	*Vice-President and Director, Imperial Oil Limited, Toronto*
Paul L. Kartzke	*President and Director, Shell Canada Limited, Toronto*

Officers

T. S. Johnston	*Chairman of the Board*
D. G. Waldon	*President*
D. R. Walker	*Vice-President*
J. W. Hamilton	*Vice-President*
J. Blight	*Secretary-Treasurer*
R. B. Burgess	*General Counsel*
F. B. Newton	*Assistant Treasurer*
E. G. Sheasby	*Assistant Secretary*

Head Office

10015—103 Avenue . . . . . *Edmonton, Alberta*

Executive Office

7 King Street East . . . . . *Toronto, Ontario*

Stock Transfer Agents

The Royal Trust Company . . . . . *Toronto, Montreal, Halifax, Winnipeg, Edmonton, Vancouver*

Chemical Bank New York Trust Company . . . . . *New York*

Stock Registrars

Montreal Trust Company . . . . . *Toronto, Montreal, Halifax, Winnipeg, Edmonton, Vancouver*

Bank of Montreal Trust Company . . . . . *New York*

1967 Highlights

FINANCIAL	1967	1966	Increase
Transportation revenue	$92,893,000	$87,788,000	5.8%
Other income	$ 1,548,000	$ 1,218,000	27.1%
Expenses, not including taxes	$41,083,000	$36,307,000	13.2%
Income and other taxes	$30,833,000	$30,176,000	2.2%
Earnings	$22,525,000	$22,523,000	
per share	$0.89	$0.89	
Dividends	$18,315,000	$18,314,000	
per share	$0.72	$0.72	
Capital expenditures	$76,721,000	$ 4,513,000	
Cash flow from operations—per share	$1.54	$1.39	
OPERATING			
Deliveries (barrels per day)	637,290	604,944	5.3%
Barrel miles (millions)	289,691	267,354	8.4%

The Pipe Line Transportation System

(as at December 31, 1967)

	Canada	United States	Total
Miles of right-of-way	1,037	988	2,025
Miles of main line pipe	2,418	1,607	4,025
Number of pumping stations	23	29	52
Installed horsepower—diesel	44,220	85,335	129,555
—electric	155,100	107,250	262,350
	199,320	192,585	391,905
Line fill in barrels (provided by shippers)	6,751,000	6,143,000	12,894,000
Tankage capacity in barrels	5,074,000	3,587,000	8,661,000
Refineries served	18	13	31
Separate streams of crude oil transported			28

Directors' Report to Shareholders

1967 was a very active and complex year for Interprovincial. More oil than ever before was transported and a major expansion program was undertaken and largely completed. Considerable progress was also made on the automation program. This project was scheduled for completion in 1967, but it now appears the remote control equipment will not be entirely operational until the spring.

Further increased by the Middle East situation, the higher than forecast demand for Canadian crude oil in the United States continued throughout the year and for the first time the refiners' requirements could not be met for an extended period. Prorationing of available pipe line capacity was necessary during the last four months of the year.

The last quarter nominations probably could have been handled had the 1967 construction program been completed on schedule. The 416 miles of 34-inch looping between Edmonton and Superior was completed by mid-September, but due to delays in delivery of electric motors and pumps, the full 100,000 barrels per day increase in capacity did not become available until shortly after the year end.

Deliveries in 1967 totalled 232.6 million barrels—almost 12 million barrels more than in 1966—and reached an all time high of 671,866 barrels per day in December.

With this increase in crude movement it might be expected that earnings would show a material increase. However, with the pipe line system operating at capacity throughout most of the year, fuel and power costs and maintenance costs were abnormally high. Salaries and wages, interest on long term debt, taxes and depreciation charges were also higher than in previous years. As a result net income of $22.5 million remained at the same level as in 1966.

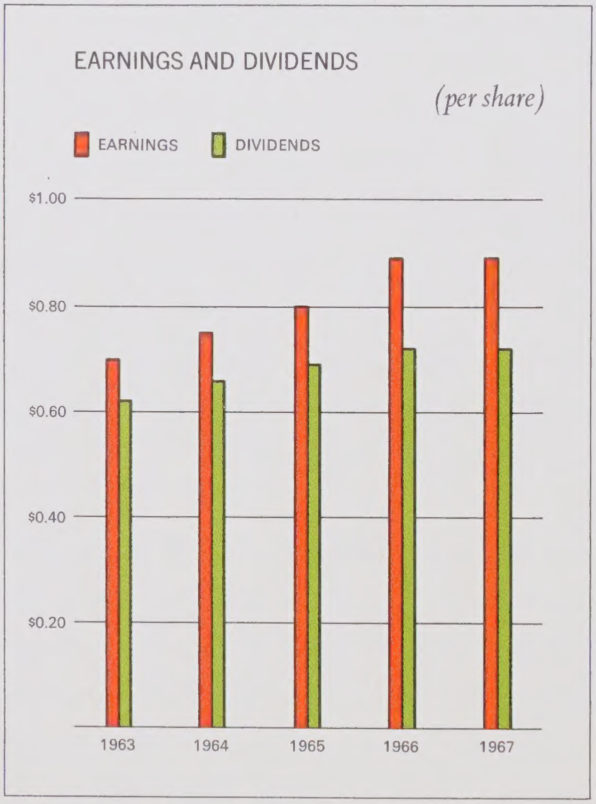
Probably the most significant action taken by your Board during the past year was the decision to loop the 645-mile section of the system between Superior and Sarnia via Chicago rather than along the existing right-of-way. This has been the subject of high level discussions between Ottawa and Washington and Lakehead is now in a position to proceed with the work.

The first step in this program will be the construction of a 34-inch line from Superior to the Chicago area in 1968 at an estimated cost of $75 million. This will be followed by the construction of a 30-inch line from Chicago to Port Huron and Sarnia, likely in 1969, at an estimated cost of

$37 million. Until the second phase is completed, arrangements have been made with existing pipe lines to continue deliveries to the Detroit and Toledo markets thereby freeing space in the existing northern system for the growing Ontario and Buffalo markets.

The new line will enable deliveries of Canadian crude oil to be made in the Chicago refinery complex, but its prime purpose is to serve the company's existing markets east of Superior. It is anticipated that the growth in exports to the United States will continue to be orderly in character and initially there will be no deliveries in Chicago.

To continue to keep pace with the increasing demand for crude in both Canada and the United States, a further expansion of the system between Edmonton and Superior will be undertaken in 1968. This work, together with the extension to the Chicago area, will cost approximately $109 million and will involve additional financing within the next few months.



A section of the main remote control centre at Edmonton.

Financial Review

The Consolidated Financial Statements and the Notes, appearing on pages 12 through 18, include the accounts of Interprovincial Pipe Line Company and its wholly owned subsidiaries. These are Lakehead Pipe Line Company, Inc., which owns and operates the portion of the pipe line system in the United States and its wholly owned subsidiary, Pipe Line Service Company, Inc., which owns and operates the aircraft and radio communication system in the United States. Interprovincial also has a Canadian subsidiary, Interprovincial Pipe Line Patrol Company Limited, which is inactive.

Income and Expenses

Throughput in terms of barrel miles was 8.4% greater in 1967 than in 1966 whereas transportation revenue at $92.9 million was 5.8% higher. The difference is accounted for by increased receipts of longer haul Alberta crude and tariff adjustments equivalent to $1.7 million. Income from short term investments was substantially higher than in 1966 as a result of investing the proceeds from the sale of debentures until the money was required for construction. The capital gain on reacquiring company bonds for sinking fund, on the other hand, was $430,000 less than in 1966.

Operating and Administrative expenses at $22.4 million were $3.2 million higher than in 1966. The fuel and power bill alone at $9.4 million was $1.5 million more than in 1966. Increased salaries and wages, overtime and higher than normal maintenance costs as a result of operating at capacity during a period of heavy construction, accounted for the balance. Fuel and power costs for each section of the system will continue to increase at a faster rate than the volume of crude oil transported until such time as each section is looped out. The Cromer to Gretna and Clearbrook to Superior sections of the system were looped out in 1967 and the entire 34-inch line from Regina to Superior will be completed in 1968.

Earnings and Dividends

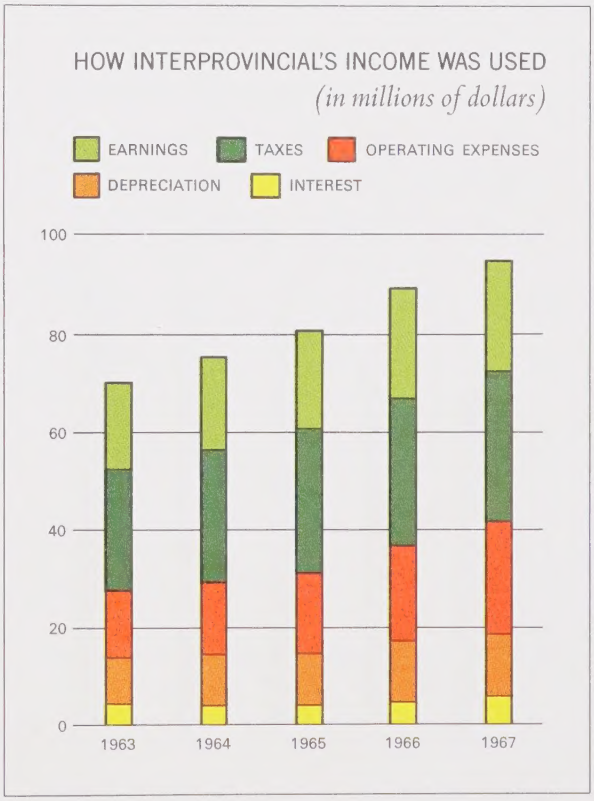
As a result of direct operating costs, interest, depreciation and taxes all being higher than in 1966, the additional volume of oil transported in 1967 did not result in an improvement in earnings. Net income at $22.5 million, equivalent to 89¢ per share, was the same as in 1966.

Regular quarterly dividends paid during the year totalled $18.3 million, equivalent to 72¢ per subdivided share. This is the same amount as was paid in 1966 including the 2¢ extra dividend paid in the last quarter of 1966.

Taxes

Income, property and other taxes imposed by all levels of government, both in Canada and the United States, amounted to $30,833,000—up $657,000 from 1966—equivalent to $1.21 per share. This is 37% more than consolidated earnings.

Note 4 to the Consolidated Financial Statements entitled "Provision for Income Taxes" details the

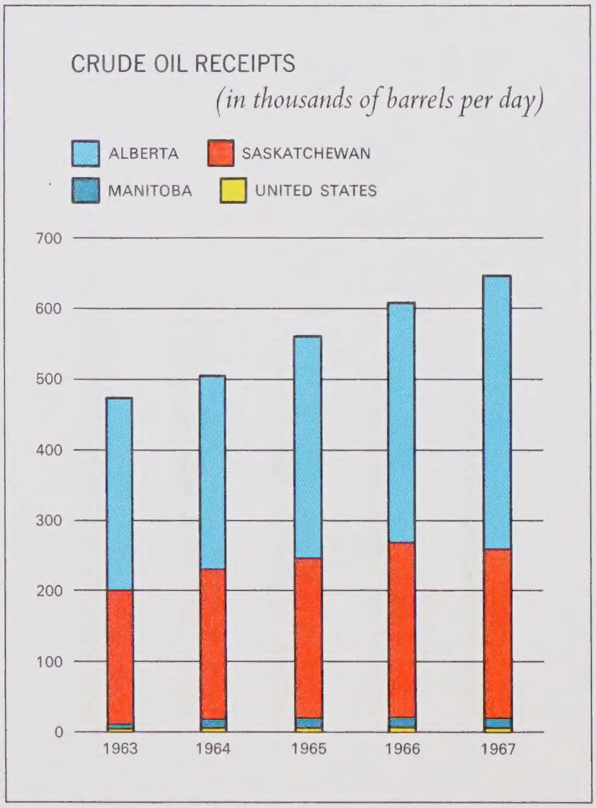


progress made during the year on the company's long outstanding foreign tax credit claim. The case was heard by the Supreme Court of Canada in November and a decision is expected shortly.

Financing

To provide funds for the 1967 construction program, on August 1, 1967 Lakehead Pipe Line Company, Inc., sold $30 million 6½% Sinking Fund Debentures, Series A due 1992. This was the first public offering by Lakehead and was well received by United States investors.

Substantial additional financing will be required in 1968, but the exact amount and the type has not been finalized. The various alternatives are being discussed with the underwriters and a decision will be made shortly.



Checking remote control equipment at Edmonton Pumping Station.

Working Capital

Funds generated from operations—that is earnings plus non-cash items of expense, principally depreciation and deferred income taxes—amounted to $39,053,000, equivalent to $1.54 per share compared with $1.39 in 1966. Comparative details of the company's working capital position is shown on the Consolidated Statement of Source and Application of Funds on page 12 of this report.

Capital Stock

Almost three years after receiving shareholders' approval, the Bill to subdivide the company's capital stock on a five-for-one basis was passed by Parliament and received Royal Assent on May 8, 1967. During final consideration of the Bill in the House of Commons an amendment was adopted, with the knowledge of the company, that reduced the authorized capital stock from $200,000,000 divided into 40,000,000 shares of

the par value of $5 each to $100,000,000 divided into 20,000,000 shares of the same par value. The remaining shares were then subdivided on a five-for-one basis, resulting in authorized capital stock of 100,000,000 shares of a par value of $1 each. Distribution of the additional shares was made on June 2, 1967.

The warrants issued with Interprovincial's $35 million 6% Sinking Fund Debentures, Series A on November 1, 1966 were also subdivided on a five-for-one basis. Thus a total of 875,000 warrants are exercisable into an equal number of shares of capital stock at $17 per share at any time on or before November 1, 1976. During the year a total of 2,150 warrants were exercised, leaving a balance of 872,850 remaining to be issued.

Operations Review

Crude oil received into the system during the year totalled 235.5 million barrels, an increase of 6.2% over 1966. Saskatchewan receipts declined 2.4% while Alberta receipts increased 13.5%. Receipts of North Dakota crude at Clearbrook also declined during the year and terminated in October.

CRUDE OIL RECEIPTS
(in thousands of barrels per day)

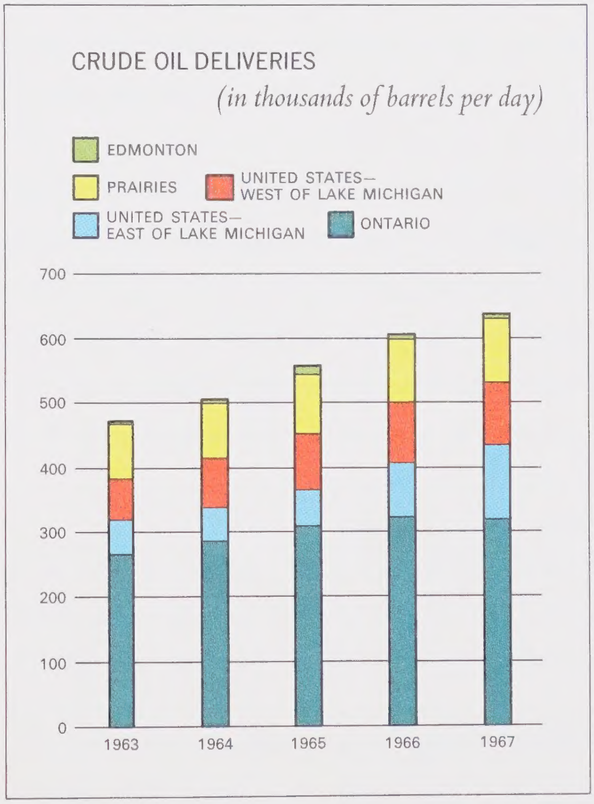
	1967	1966
Alberta	386.3	340.3
Saskatchewan	239.5	245.4
Manitoba	15.9	14.8
North Dakota	3.5	6.8
	645.2	607.3

Deliveries during the year amounted to 232.6 million barrels, 5.3% more than in 1966. They averaged 637,290 barrels per day for the year and reached an all-time high of 671,866 barrels per day in December.

CRUDE OIL DELIVERIES
(in thousands of barrels per day)

	1967	1966
Edmonton for West Coast	7.6	8.5
Prairies	99.4	98.3
United States — West of Lake Michigan	97.6	94.2
— East of Lake Michigan	114.7	83.8
Ontario	318.0	320.1
	637.3	604.9

The difference in receipts and deliveries consists of the 2.5 million barrels of oil required to fill the



new loops, crude used for fuel, losses and inventory adjustments.

Regular deliveries from the new Rainbow pipe line commenced at Edmonton in March. The Great Canadian Oil Sands pipe line was filled during the last quarter of 1967 but only a few barrels were received at Edmonton.

Construction

1967 Review

To provide the capacity necessary to meet the anticipated market growth in 1968, the largest construction program since 1953 was undertaken in 1967. Capital expenditures totalled $76.7 million.

The basic expansion program of looping with 34-inch pipe, initiated in 1962 between Gretna and Superior, was further extended in 1967 to include that portion of the pipe line system between Edmonton and Regina. During the year 311 miles of 34-inch pipe were installed between Edmonton and Gretna and 105 miles between Gretna and Superior. In addition, the first looping on the 20-inch line between Sarnia and Port Credit was initiated by the construction of 56 miles of 20-inch pipe.

Thirteen new stations, having an installed horsepower of 43,455, were also constructed, and at existing stations 97,320 horsepower was added.

To handle the increased volumes, extensive modifications were made to receiving and delivery terminals to increase their capacity. Two floating roof storage tanks were also erected, one each at Sarnia and Westover.

Electrification of the three original diesel stations in Manitoba was completed during the year but the remote control portion of the program between Edmonton and Superior has taken longer than anticipated and will not be completed and in operation until April 1968. The reduction in manpower forecast for 1967 will not take place until the computer-operated system is in operation.

An operator adjusting the control console of the master computer at Edmonton.

1968 Forecast

As mentioned earlier, a $109 million expansion program is planned for 1968, the major project being the 464-mile 34-inch line from Superior to Chicago.

Ninety-two miles of 34-inch pipe will be added between Edmonton and Regina in four loops, and

the third line (the 34-inch line) will be completed between Regina and Superior. The latter consists of constructing the remaining 57 miles between Regina and Cromer and 33 miles between Gretna and Superior.

To be in a position to fully utilize these main line additions, eight pumping units totalling 15,500 horsepower will be installed at existing stations between Edmonton and Superior and extensive modifications will be made to the Edmonton and Superior tank farms to increase their pump-out capabilities. Four storage tanks will also be erected, two at Edmonton, one at Superior and one at Sarnia.

The capacity of the various sections of the pipe line system upon completion of the 1968 construction program will be:

Line Section	In Barrels per Day
Edmonton-Regina	633,000
Regina-Cromer	823,000
Cromer-Gretna	862,000
Gretna-Superior	821,000
Superior-Sarnia	536,000
Superior-Chicago	204,000*
Sarnia-Port Credit	281,000
Westover-Buffalo	79,000

**with one pumping station at Superior*

General

Following the annual meeting on April 12, Mr. T. S. Johnston was elected Chairman of the Board. Mr. Johnston has been with the company since its inception and had been President since April 1951. He was succeeded by Mr. D. G. Waldon, formerly Vice-President.

In keeping with the patterns that developed in the oil industry on both sides of the border, general salary and wage increases were negotiated and granted as follows: Canadian employees 6.5% effective April 1; United States employees approximately 4% effective January 1, 1967 followed by a further 4% the first of 1968.

An improved Annuity Plan for the Lakehead employees was introduced effective January 1, 1968. Under the terms of the new plan, annuity benefits will be based entirely on the best five of the last ten years' earnings. The Interprovincial Retirement Plan was revised effective January 1, 1966. The Employees Savings Plans of both companies were also liberalized slightly commencing the first of 1968.

Under the trying circumstances which necessitated greater effort by all employees, management is grateful for this opportunity to express its sincere thanks to all those who so untiringly contributed their knowledge and time to their duties.

On behalf of the Board of Directors

T S Johnston D G Waldon

Chairman of the Board *President*


A L B E R T A
REDWATER
EXCELSIOR
EDMONTON
STROME
HARDISTY
METISKOW
KERROBERT
MILDEN
LOREBURN
CRAIK
REGINA
GLENAVON
CROMER
SOURIS
GLENBORO
MANITOU
GRETNA
DONALDSON
VIKING
PLUMMER
CLEARBROOK
DEER RIVER
SU
S A S K A T C H E W A N
M A N I T O B A
N O R T H
D A K O T A
M I N N E S O
INTERPROVINCIAL PIPE LINE COMPANY
And its United States Subsidiary
LAKEHEAD PIPE LINE COMPANY, INC.
Legend
SIZE IN INCHES
LENGTH IN MILES
12 92
16 428
18 363
20 658
24 772
26 326
30 640
34 746
4,025
1968 LINE LOOPING—646 MILES
PUMPING STATIONS
TEMPORARY PUMPING STATIONS


ONTARIO
QUEBEC
SAXON
RAPID RIVER
GOULD CITY
INO
GOGEBIC
IRON RIVER
MANISTIQUE
MACKINAW
INDIAN RIVER
LEWISTON
WISCONSIN
WEST BRANCH
BAY CITY
NORTH BRANCH
MICHIGAN
WESTOVER
PORT CREDIT
WOLVERTON
SMITHVILLE
KEYSER
BUFFALO
NEW YORK
SARNIA
BRYANSTON
DETROIT
Future Extension
CHICAGO
Buckeye
TOLEDO
Tecumseh
GRIFFITH
CYGNET
ILLINOIS

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(Canadian dollars)	*Year ended December 31* 1967	1966
Funds were provided from the following sources:		
Earnings for the year	$ 22,525,000	$22,523,000
Add—Non-cash charges and (credits) to earnings:		
Depreciation and amortization (Note 2)	12,683,000	12,346,000
Deferred income taxes (Note 5)	2,478,000	418,000
Deferred investment tax credit, net (Note 6)	1,250,000	(124,000)
Other	117,000	115,000
Funds provided from operations	39,053,000	35,278,000
Long term debt issued—Series A Debentures—		
Lakehead Pipe Line Company, Inc.—6½%	32,298,000	—
Interprovincial Pipe Line Company—6%	—	35,000,000
	71,351,000	70,278,000
Funds were expended for the following:		
Dividends	18,315,000	18,314,000
Long term debt retired or included in current liabilities	10,194,000	9,576,000
Additions to pipe line transportation system	76,721,000	4,513,000
Government of Canada special refundable tax	276,000	651,000
Cost of issuing long term debt	578,000	620,000
Other transactions, net	(47,000)	18,000
	106,037,000	33,692,000
Increase (decrease) in working capital	(34,686,000)	36,586,000
Working capital (deficit) at beginning of year	24,409,000	(12,177,000)
Working capital (deficit) at end of year	$ (10,277,000)	$24,409,000

The accompanying notes are part of the financial statements.

CAPITAL STOCK *(as at December 31)*

	1967				1966			
	Shareholders	%	Shares	%	Shareholders	%	Shares	%
Canada	16,848	92	22,959,802	90	14,846	91	22,610,370	89
United States	1,274	7	2,224,138	9	1,259	8	2,550,020	10
Other Countries	199	1	254,620	1	185	1	276,020	1
	18,321		25,438,560		16,290		25,436,410	

CONSOLIDATED STATEMENT OF EARNINGS

(Canadian dollars)	*Year ended December 31* 1967	[illegible]
Income:		
Transportation revenue	$92,893,000	$87,788,000
Gain on purchase of company bonds for sinking fund	44,000	474,000
Income from short term investments	1,386,000	654,000
Sundry income	118,000	90,000
	94,441,000	89,006,000
Expenses:		
Operating and administrative expenses	22,384,000	19,217,000
Taxes, other than income taxes	4,636,000	4,292,000
Provision for depreciation	11,464,000	10,760,000
Interest on long term debt	5,641,000	4,274,000
Loss on foreign exchange (Note 1)	375,000	470,000
Amortization of facilities retired (Note 2)	1,219,000	1,586,000
	45,719,000	40,599,000
Earnings before income taxes	48,722,000	48,407,000
Provision for income taxes:		
Current (Note 4)	22,469,000	25,590,000
Deferred (Note 5)	2,478,000	418,000
Deferred investment tax credit, net (Note 6)	1,250,000	(124,000)
	26,197,000	[illegible]
Earnings for the year	$22,525,000	$22,523,000
Earnings per share	$0.89	$0.89

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Canadian dollars)	*Year ended December 31* 1967	1966
Balance at beginning of year	$49,259,000	$45,050,000
Earnings for the year	22,525,000	22,523,000
	71,784,000	67,573,000
Dividends	18,315,000	18,314,000
Balance at end of year	$53,469,000	$49,259,000

The accompanying notes are part of the financial statements.

ASSETS

	December 31 1967	December 31 1966
Current Assets:		
Cash	$ 898,000	$ 1,185,000
Term deposits with Canadian chartered banks	801,000	26,519,000
Short term investments, at cost which is equivalent to market	475,000	14,163,000
Accounts receivable—		
Debenture proceeds received January 10, 1968 (Note 3)	3,886,000	—
Transportation charges receivable	6,651,000	6,913,000
Other accounts receivable	556,000	205,000
Deposit for bond interest due January 1	409,000	492,000
Inventory of materials and supplies, at cost	1,677,000	961,000
Prepaid expenses	471,000	275,000
	15,824,000	50,713,000
Other Assets and Deferred Charges:		
Government of Canada special refundable tax	927,000	651,000
Unamortized expense on long term debt	1,342,000	830,000
Other	413,000	449,000
	2,682,000	1,930,000
Pipe Line Transportation System, at cost (Notes 2 and 3)	405,657,000	334,507,000
Less—Accumulated depreciation	124,790,000	117,653,000
	280,867,000	216,854,000
	$299,373,000	$269,497,000

LIABILITIES

	December 31 1967	1966
Current Liabilities:		
Accounts payable	$ 5,635,000	[illegible]
Interest on long term debt	2,316,000	1,544,000
Income and other taxes	7,511,000	15,038,000
Long term debt due within one year (Note 3)	10,639,000	7,065,000
	26,101,000	26,304,000
Long Term Debt (Note 3)	141,191,000	119,087,000
Deferred Income Taxes (Note 5)	30,315,000	27,837,000
Deferred Investment Tax Credit (Note 6)	2,788,000	1,538,000
Shareholders' Equity:		
Capital stock (Note 7)—		
Authorized—$100,000,000 divided into 100,000,000 shares, par value $1 each		
Issued—1967—25,438,560 shares	25,439,000	—
—1966—25,436,410 shares	—	25,436,000
Contributed surplus—premium on shares (Note 7)	20,070,000	20,036,000
Retained earnings	53,469,000	49,259,000
	98,978,000	94,731,000
	$299,373,000	$269,497,000

Approved on Behalf of the Board:

T. S. Johnstone Director

D. G. Waldon Director

The accompanying notes are part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Canadian dollars)*

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Interprovincial Pipe Line Company and its wholly owned subsidiaries. These are Interprovincial Pipe Line Patrol Company Limited in Canada and Lakehead Pipe Line Company, Inc. and its subsidiary, Pipe Line Service Company, Inc. in the United States.

United States dollar amounts have been translated into Canadian dollars on the following bases:

Current assets and liabilities—at the rate of exchange December 31;

Other assets and liabilities—at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Net losses of $375,000 arising from the foregoing methods are shown on the Consolidated Statement of Earnings as Loss on foreign exchange.

2. PIPE LINE TRANSPORTATION SYSTEM: PROVISION FOR DEPRECIATION: AMORTIZATION OF FACILITIES RETIRED:

The pipe line transportation system and accumulated depreciation by major classes are as follows:

	Investment, at cost	Accumulated depreciation	Net investment December 31	
	December 31, 1967		1967	1966
	(in thousands of dollars)			
Land	$ 829	$ —	$ 829	$ 816
Rights-of-way	4,052	1,533	2,519	2,553
Pipe line	297,274	94,288	202,986	158,115
Pumping equipment, buildings and tanks	98,839	28,969	69,870	52,154
Construction in progress	4,663	—	4,663	3,216
	$405,657	$124,790	$280,867	$216,854

It is estimated that 1968 capital expenditures to complete construction in progress and for further expansion, will total approximately $109,000,000. The greater part of these expenditures will be financed by additional borrowing, details of which have not yet been determined.

The companies' policy is to provide for depreciation of fixed assets on the straight-line method, at annual rates which will amortize the cost of depreciable properties over their estimated service lives, after taking into account possible salvage values. The rate of depreciation on the pipe line transportation system approximates 3.3%.

It is the companies' policy to capitalize interest during the construction period on funds borrowed specifically for additions to the pipe line transportation system. This amounted to $984,000 during 1967.

In the interests of operating efficiency and reduced costs, the diesel pumping equipment located at three pump stations in Manitoba was replaced with remotely controlled electrical pumping units. As a result of this modernization program, which was initiated in 1966, certain fixed assets became surplus to requirements and were retired in 1967. Normal depreciation on the same basis as in prior years was provided on such assets until they were retired from service and if no other action had been taken they would have had a net book value at the time of retirement of $2,805,000. In order that these assets would be fully written off when they were retired, the company provided for amortization of the remaining costs by additional charges to earnings of $1,586,000 in 1966 and $1,219,000 in 1967 and these amounts are shown on the Consolidated Statement of Earnings as Amortization of facilities retired.

3. LONG TERM DEBT:

	Originally issued	Outstanding December 31 1967	Outstanding December 31 1966
	(in thousands of dollars)	Expressed in Canadian dollars	Expressed in Canadian dollars
Interprovincial Pipe Line Company—			
First Mortgage and Collateral Trust Bonds—			
Series A—3½% due January 1, 1970	$37,000 Can.	$ 11,564	$ 13,876
B—3½% due January 1, 1970	35,000 U.S.	12,084	14,502
C—4% due April 1, 1973	60,000 U.S.	31,279	32,925
D—3⅝% due April 1, 1974	30,000 U.S.	17,160	17,978
E—5½% due April 1, 1985	12,000 Can.	12,000	12,000
		84,087	91,281
Sinking Fund Debentures—			
Series A—6% due November 1, 1986	$35,000 Can.	35,000	35,000
		119,087	126,281
Lakehead Pipe Line Company, Inc.—			
Sinking Fund Debentures—			
Series A—6½% due August 1, 1992	30,000 U.S.	32,298	—
		151,385	126,281
Less—Long term debt due within one year		10,194	7,194
		$141,191	$119,087

Principal repayments required on Long Term Debt for the years 1969 to 1972 expressed in Canadian dollars are $24,689,000, $7,271,000, $7,341,000 and $8,362,000 respectively.

The 6½% Sinking Fund Debentures, Series A, issued by Lakehead Pipe Line Company, Inc., were sold August 2, 1967. Under the terms of delayed delivery contracts, $3,500,000 U.S. of the proceeds, plus accrued interest of $95,000 U.S. (total $3,886,000 Canadian) was received January 10, 1968.

4. PROVISION FOR INCOME TAXES:

Bond interest paid to the company by the United States subsidiary is subject to a 15% withholding tax which the company claims as a foreign tax credit for Canadian income tax purposes. The Canadian income tax authorities have issued assessments for the years 1960 through 1965 which disallowed the greater part of the foreign tax credit claimed in respect of such withholding tax.

Counsel advised that the assessments were ill founded in law and the company has filed Notices of Objection thereto. The assessments in respect of the years 1960 and 1961 were appealed to the Exchequer Court of Canada. By a judgment dated May 3, 1967 that court confirmed the assessments and dismissed the appeals. On advice of counsel the company appealed this judgment to the Supreme Court of Canada and the case was heard on November 21, 1967. To date no decision has been handed down.

Pending determination of the issue the company has made full provision for the income taxes involved and, in order to avoid possible interest penalties, has paid such taxes under protest. The total disputed taxes provided to date amount to $2,063,000 of which $191,000 was provided in 1967.

5. DEFERRED INCOME TAXES:

Under Canadian and United States income tax regulations more depreciation may be deducted for tax purposes than the amounts recorded in the accounts for Provision for depreciation and Amortization of facilities retired (Note 2); also, interest capitalized may be claimed for tax purposes in the year incurred. The companies are taking advantage of the maximum deductions permitted for tax purposes which results in a deferment of taxes to future years when amounts deductible will be less than the depreciation recorded in the accounts.

The amount of $2,478,000 deferred for 1967 is shown on the Consolidated Statement of Earnings under Provision for income taxes. The cumulative total of $30,315,000 deferred for 1967 and prior years is carried on the Consolidated Balance Sheet under the heading Deferred Income Taxes.

6. DEFERRED INVESTMENT TAX CREDIT:

The United States subsidiary companies are allowed a credit against income taxes payable of a specified percentage of the cost of most depreciable assets acquired and placed into service subsequent to December 31, 1961, excluding certain assets acquired during a suspension period from October 10, 1966 through March 9, 1967.

The investment tax credit has been deferred and is being taken into earnings over the life of the related assets. The net charge to earnings as a result of this practice was $1,250,000 in 1967 and is shown on the Consolidated Statement of Earnings under Provision for income taxes. The unamortized portion of $2,788,000 is shown on the Consolidated Balance Sheet under the heading Deferred Investment Tax Credit.

7. CAPITAL STOCK:

By Special Act of the Parliament of Canada passed on May 8, 1967, the authorized capital of the company was reduced to $100,000,000 divided into 20,000,000 shares of the par value of $5 each and the 20,000,000 shares then authorized were subdivided into 100,000,000 shares of the par value of $1 each.

During 1966 the company sold $35,000,000 of its 6% Sinking Fund Debentures with share purchase warrants attached which entitle the holders to purchase capital stock of the company on or before November 1, 1976 at $17 per subdivided share. A total of 875,000 subdivided shares were reserved to meet this commitment.

During 1967, 2,150 subdivided shares were issued to holders who exercised their warrants. Cash received from the sale of these shares was credited to Capital stock to the extent of par value and the remainder of $34,000 was credited to Contributed surplus.

8. PENSION PLANS:

The companies have contributory pension plans covering substantially all of their employees. The total expense of $466,000 for these plans in 1967 includes, with respect to Canadian employees, a charge for past service cost which is being amortized over a period of not more than 20 years. The United States subsidiary has revised the pension plan for its employees for both past and future service effective January 1, 1968. The actuarial liability for past service benefits arising from this revision will be amortized by charges to earnings over a period of up to 20 years and will not have a significant effect on earnings.

9. REMUNERATION OF DIRECTORS:

The total amount deducted on the Consolidated Statement of Earnings for remuneration paid to salaried and other directors was $111,000.

AUDITORS' REPORT

To the Shareholders of INTERPROVINCIAL PIPE LINE COMPANY:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Company and subsidiary companies as at December 31, 1967 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
February 7, 1968.

Price Waterhouse & Co
Chartered Accountants.

Ten Year Review

FINANCIAL (*in thousands of dollars except per share amounts*)

Income
Expenses
Income taxes
Earnings
Earnings per share
Dividends paid
Dividends per share
Percentage of earnings
Working capital (deficit)
Cash Flow from operations (per share)
Capital additions to pipe line transportation system
Investment in pipe line transportation system (cost)
Investment in pipe line transportation system (net)
Long term debt, less payments due within one year
Number of shares outstanding at year end (*thousands*)
Number of shareholders

OPERATING

RECEIPTS OF CRUDE OIL PRODUCED IN: (*in barrels per day*)
Alberta
Saskatchewan
Manitoba
United States
DELIVERIES OF CRUDE OIL TO: (*in barrels per day*)
Edmonton—for West Coast
Prairie Provinces
United States—West of Lake Michigan
—East of Lake Michigan
Ontario
BARREL MILES (*millions*)

1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
$ 94,441	89,006	80,292	74,983	69,999	66,570	59,227	55,162	56,097	49,910
$ 45,719	40,599	34,798	32,998	31,013	27,914	25,729	24,347	24,059	23,970
$ 26,197	25,884	25,157	22,783	21,206	20,977	17,402	15,335	16,434	12,844
$ 22,525	22,523	20,337	19,202	17,780	17,679	16,096	15,480	15,604	13,096
$ 0.89	0.89	0.80	0.75	0.70	0.70	0.63	0.61	0.62	0.52
$ 18,315	18,314	17,551	16,787	15,755	15,491	14,705	14,184	11,389	9,103
$ 0.72	0.72	0.69	0.66	0.62	0.61	0.58	0.56	0.45	0.36
81.3%	81.3%	86.3%	87.4%	88.6%	87.6%	91.4%	91.6%	73.0%	69.5%
$ 10,277	24,409	(12,177)	(18,572)	(16,057)	689	6,821	6,921	7,997	276
$ 1.54	1.39	1.28	1.22	1.20	1.12	1.02	1.00	1.03	1.00
$ 76,721	4,513	11,172	7,661	23,453	12,350	3,057	5,440	2,667	11,200
$405,657	334,507	330,676	320,023	312,670	289,465	277,382	274,560	269,626	267,270
$280,867	216,854	224,765	224,125	226,676	212,805	209,461	215,324	218,665	224,700
$141,191	119,087	93,663	90,992	100,073	108,378	115,339	123,758	130,926	137,479
25,439	25,436	25,436	25,436	25,415	25,402	25,362	25,342	25,317	25,289
18,321	16,290	15,521	14,127	12,757	12,582	12,353	11,834	11,901	12,129

386,331	340,263	313,923	271,366	271,610	251,214	241,717	204,434	206,607	178,323
239,466	245,435	228,777	216,250	190,281	171,657	146,927	133,528	118,206	108,759
15,863	14,812	14,110	12,608	10,887	11,190	12,611	13,142	13,752	15,866
3,502	6,836	4,903	4,487	4,178	123	—	—	—	—
645,162	607,346	561,713	504,711	476,956	434,184	401,255	351,104	338,565	302,948
7,634	8,501	14,595	5,013	3,818	7,172	13,213	18,175	15,370	12,881
99,416	98,316	91,523	85,300	84,358	82,457	75,162	75,365	74,235	67,972
97,608	94,231	86,868	77,229	63,642	55,671	51,921	54,067	50,574	54,761
114,663	83,751	56,833	50,869	50,861	51,288	39,320	8,824	5,186	3,669
317,969	320,145	308,226	285,556	267,903	235,897	220,200	193,039	191,407	160,714
637,290	604,944	558,045	503,967	470,582	432,485	399,816	349,470	336,772	299,997
289,691	267,354	241,264	221,691	207,724	186,562	170,468	137,483	135,569	113,997

NOTE: Per share amounts and shares outstanding prior to 1967 adjusted for five-for-one subdivision of capital stock made in May 1967.

PRINTED IN CANADA

INTERPROVINCIAL PIPE LINE COMPANY

Report of the Eighteenth Annual General Meeting of Shareholders

TORONTO, ONTARIO

APRIL 12, 1967

INTERPROVINCIAL PIPE LINE COMPANY
ANNUAL GENERAL MEETING
PROCEEDINGS

The 18th Annual General Meeting of Shareholders of Interprovincial Pipe Line Company held on April 12, 1967 at The Royal York Hotel, Toronto, was chaired by Mr. T. S. Johnston, President of the Company. Approximately 200 persons were present at the meeting of whom 160 were shareholders. Management and the Board are indeed gratified by the continued support of shareholders—over 80% of the shares outstanding were represented in person or by proxy.

Mr. T. S. Johnston and Mr. D. G. Waldon, Vice-President, in their remarks to the meeting, dealt with many phases of the Company's present and future operations and construction plans. These addresses have been printed for the benefit of those shareholders who were unable to attend.

Business transacted during the meeting included approval of the 1966 Directors' Report to Shareholders and the Financial Statements, re-election of the present Board of Directors, approval for the re-appointment of Price Waterhouse & Co. as auditors of the Company, and shareholders' confirmation of By-laws Nos. 25, 26 and 27. By-law No. 25 dealt with minor revisions to the Employees' Retirement Plan; By-law No. 26 increased the number of Directors from nine to eleven; By-law No. 27 authorizes the Company to make further petitions to Parliament for the sub-division of its Capital Stock. This was the subject of a special letter to shareholders dated March 29 and is further discussed by Mr. Johnston on page 3.

* * *

Immediately following the Annual Meeting, a Board of Directors Meeting was held. At this meeting the new position of Chairman of the Board was established and Mr. T. S. Johnston was elected to this office. Mr. D. G. Waldon was elected President.

* * *

T. S. JOHNSTON'S REMARKS

Ladies and Gentlemen:

Again may I say how encouraging it is to see so many of you present here today. I hope you are finding the meeting interesting and that you will not hesitate to ask questions. This meeting is for your benefit and should afford you an opportunity to learn more about the Company. After all, it's your money we use and, quite properly, you are entitled to know how we spend it.

There have been some exciting and stimulating years in Interprovincial since its inception in 1950 and, for those of us who were fortunate enough to be in at the start, it has been a gratifying experience. Your Company has made a real contribution to the national economy of Canada in these years —a view to which I am sure you subscribe.

1966, contrasted with other years, was not the most exciting in our history. Previously we had had the added stimulus of playing a part in the expansion of Canadian crude oil to new markets or were in the midst of sizeable construction programs. However the year 1966 did clearly demonstrate that our long term planning was not far off

target. Operating and financial results were the best in our history. We transported more crude than ever before, averaging in excess of 600,000 barrels per day. Earnings were also at a new high of $4.43 per share—up 10.8%. Dividends were increased to $3.60 per share, representing an 81% payout to our shareholders.

The past year was not, of course, without its problems. Two annoying and troublesome items which have been with us for several years still remain unresolved. I refer to our argument with the Federal Government on the withholding tax and the lack of success we have had in securing the sub-division of our stock.

Both of these problems have been the subject of remarks I have made to you in the past and our Annual Reports have kept you up to date on developments. I must say I have a certain feeling of embarrassment in again mentioning these subjects. I am glad, however, that I can now report some progress on the tax case; it will be heard on April 19—a week from now—before the Exchequer Court. The delay of over seven years has been due entirely to the reluctance on the part of the Government departments to consider our case. On several occasions we have met with Government officials and have been assured that we would receive prompt attention and action—only to have our case stalled with further delays. I am forever hopeful, however, for some favourable results from the Court hearing. Through 1966 we have paid approximately $1.8 million under protest which, of course, is cash serving us no purpose whatsoever and at a time when we would welcome the use of these dollars.

The second outstanding problem is that fascinating game we have been playing for the last three years—"How to achieve a sub-division of your common stock without even trying?" We still haven't won and, unless something favourable transpires tomorrow evening during the Private Members Hour in Parliament, I doubt whether we will be successful at this session. However, we haven't given up and, for that reason, have asked you to approve a conditional by-law, By-law No. 27, which will permit us to re-introduce our Bill at the next session of Parliament.

As late as last week we spoke personally with all the objectors to our Bill. We were received very politely and in a friendly manner and I am hopeful that this attitude may prevail at the session tomorrow night.

Everyone experienced the tight money situation and high interest rates in 1966. It was rather unfortunate that it was at a time when additional borrowing for Interprovincial was necessary. Although we were not too happy to pay 6% for our $35 million debenture issue, which was a higher interest rate than we had ever paid on any previous borrowing, the issue sold rapidly and was considered a success. We were probably more successful than many companies who were forced to accept an interest rate in excess of 6%. As you know, the funds will cover part of the cost of the large expansion program scheduled for this year.

We expect to arrange further financing later this Spring. The actual amount has not been decided upon but it will be done in the United States and a lesser amount, if required, will be arranged by

short term bank borrowings in Canada. It seems fair to assume that the interest rates will show an improvement over last year.

To clearly identify this 1967 money, I probably should repeat my remarks in the Annual Report. These new funds will be used to pay for our expanded construction program. We require more capacity in the system and the only way to achieve it is to build for it. The 1968 demand for crude simply cannot be met with our present facilities.

One of the main topics of conversation in recent months has been the question of imports of Canadian crude into the U.S. Through the Interprovincial system about 178,000 barrels per day were transported last year to the so-called upper tier refineries in the United States. This was an increase of approximately 34,000 b/d over 1965. For the past several years the use of Canadian crude in U.S. refineries has gradually increased. The most recent development, of course, has been the Chicago market as an attractive potential for our crude.

Canadian discoveries and reserves have now reached a level which require a more concentrated effort to penetrate new markets. Considering the Chicago market, Interprovincial is certainly the logical vehicle to be considered. An extension from Superior, Wisconsin would conveniently handle the Chicago demands and, at the same time, could be of sufficient size to include deliveries into the Detroit/Toledo market. We already move about 35,000 b/d into this latter area through our existing system.

For our part, we have outlined our plans to the appropriate governmental departments and have

expressed our willingness to undertake the project. Since the details and final approval rest at a high government level, we, as a carrier, can do little more at this time but stand by hopefully. The increase in production of Canadian crude is indeed a tribute to the oil companies who have spent millions of dollars on exploration and development over a period which I am sure has had its discouraging moments. The results of all this work are now apparent. Interprovincial is "ready and willing."

Mr. Waldon, our Vice-President, in a few minutes will furnish you with some of the details of our operations, and will explain our plans for this year. In the meantime I thought you should know that the general increase in the cost of living has not bypassed the pipe line industry.

Our payroll is a striking example—but I don't for a minute believe we are unique. In 1957 we employed 575 persons—last year we had 608, an increase of only 33. This increase in personnel, I feel, indicates that, even with all the facilities added to the system over some 10 years, we have been able to retain our manpower within reason. Our actual annual payroll, however, has increased 50% to just over \$6 million. This figure includes fringe benefits, salaries, wages, and so forth or in other words, the entire wage and salary bill for Interprovincial and its U.S. subsidiary, Lakehead. Our average salary today is approximately \$10,000.

Quite naturally you are interested in what 1967 will bring forth as far as you, as a shareholder, are concerned. First of all, our estimates indicate an improvement in earnings over 1966. The quantity

of crude moved through the system is expected to be higher by about seven to eight per cent. Figures for the first 3 months of 1967 show deliveries of 626,200 barrels per day. Compared with the same period last year, this is an increase of about five per cent.

I wish I were able to furnish you with something more definite but our throughput is subject to wide swings due to the ever changing demands of the shippers. The picture alters quite rapidly and any published forecast under such conditions could only be misleading.

Today our Directors declared a quarterly dividend of 90¢ per share payable June 1, 1967. This payment is at the same rate as the March dividend.

And that, ladies and gentlemen, is the current picture of Interprovincial. Our policy of providing economical transportation, whenever and wherever it is feasibly possible, still stands.

D. G. WALDON'S REMARKS

Like the Chairman, I will assume that you have all read the Annual Report. I will try not to bore you with numerous statistics.

The most significant development in 1966 was, of course, the sudden and completely unexpected upsurge in demand for Canadian crude oil in the United States, largely in the Detroit/Toledo and Buffalo areas, during the second half of the year.

This unexpected increase, combined with higher than forecast demand for petroleum products in Ontario, meant that it was necessary to operate

the pipe line system at close to capacity for most of the year and at maximum capacity during the last quarter.

Having to operate a crude oil pipe line system at capacity certainly has its compensations, as evidenced by the 10.8% increase in earnings, but it is not without its problems.

Much of the preventative maintenance to the prime movers, in which we take great pride, had to be foregone. Pumping equipment had to be repaired immediately, often under emergency conditions regardless of cost and, in the case of the electric units, it was not always possible to take advantage of lower cost "off peak" power.

This largely accounts for the disproportionate increase in operating expenses as compared to 1965. The fuel and power bill alone was close to $8 million as compared to $6.4 million in 1965.

Another significant development was the decision made early in the year to replace the diesel pumping units in the Manitoba stations (Cromer, Glenboro and Gretna) with lower cost electric units and to remotely control the pumping stations between Edmonton and Superior, diesel as well as electric, from the Dispatching office in Edmonton.

It is not a simple matter to decide to write off some $3 million in plant and equipment which still have many years of useful life but, with relatively low cost electric power now available in Manitoba and the considerable manpower saving which will result, the economics were clear. Reasonably priced, reliable electric power was not available when the diesel stations were first constructed.

The eleven 2,000 h.p. diesel units from the three Manitoba stations will be re-used in the Lakehead stations where additional horsepower is required so only the smaller diesel units in the original stations will actually be scrapped. The balance of the $3 million is made up of brick buildings, station oil lines and other facilities.

The original plan for remotely controlling the stations between Edmonton and Superior was to install a fixed display system similar to what we now have at Superior for controlling the fourteen stations on the 30″ line but, before we got too deeply into this, the possibilities that modern computers afford were investigated and it was quickly decided to skip the "fixed display" step and go directly into what we have chosen to call a "computer assist" system.

A fixed display system requires a separate instrument cubicle for each station as well as a control console. Consequently, such a system requires much more office space than a computer and is more costly to expand.

In any event, a larger computer than we now have is required to assist with the many involved calculations that are constantly necessary to schedule the flow of oil through the 2,000 mile pipe line system, do the accounting, and assist with hydraulic and other engineering problems, so it was decided to establish a large computer centre capable of handling all these functions. The equipment that has been chosen is an I.B.M. 360/40 system with small computers at each pumping station location.

I am not going to pretend that I know exactly how the system will work but the gist of it is that,

instead of having operators on duty 24 hours a day at each of the presently manned pumping stations between Edmonton and Superior, a single operator for each line will sit in front of a screen, similar to a television screen, in Edmonton and control all the pumping stations on his line, through a console, using the information that is constantly being fed to him from the pumping stations via the computer. There are sixteen stations on one line and twelve on the other.

The basic information that will be transmitted to the computer over leased wires is the units that are operating, suction pressures, discharge pressures, rates of flow, electric energy consumption, meter readings, tank gauges, batch positions; in short, all the information the operator needs to operate his line in the most economical manner to meet the throughput requirements.

Sound simple? Well, it will look simple when the equipment is in operation towards the end of the year but, in the meantime, there is still a tremendous amount of programming of the computers to be done, to say nothing of the countless instruments and devices which have to be installed at the various pumping stations.

The new electric stations in Manitoba are expected to be in operation by mid-summer. They had better be. The eleven 2,000 h.p. diesel units are needed in the Lakehead stations to take care of the 1968 throughput requirements.

I mentioned earlier the manpower saving which will result from the electrification program. The remote control program will also result in a manpower saving, but fortunately it will not be neces-

sary to terminate the employment of many men as there have been several resignations since the program was explained to the employees early in 1966 and, as expected, our expansion plans require *more* electricians, *more* mechanics and *more* welders, most of whom are now in training. Several station operators will also be required to operate the new equipment in Edmonton. They are also being trained.

The greatest benefit from the remote control program will come from more efficient use of the available pipe line capacity and from the fuel and power that will be saved by centralizing control of all the pumping stations and having the computer assist in selecting the most economical combination of pumping units to achieve a given pumping rate. This is known as power optimization. With an $8 million fuel and power bill, even a 2% reduction will be worthwhile, but the saving will be more than that.

Still on the subject of computers, it is gratifying to report that we have finally had a break-through on scheduling the flow of crude oil through the system and, with the aid of a computer, can now turn out a revised pumping schedule in 2½ hours as compared to two days when it all had to be done by hand.

Considering there are over 10 million barrels of oil in the pipe line system at all times, scheduling the *right* kind of oil to arrive at the *right* place at the *right* time over the 2,000 mile system is a major problem, with 21 different types of crude in roughly 125 batches varying in size from 40,000 barrels to 250,000 barrels, 7 different receiving points and 25 different delivery points, and frequent changes in

refinery requirements. I do not know what we would have done if our computer and dispatching people had not come up with a solution to the problem. It has taken close to four years but we finally have a workable program.

As far as construction is concerned, 1966 was a comparatively quiet year as evidenced by the relatively modest $4.5 million expenditure.

But, for our own maintenance crews, it was anything but a slack year. They were kept busy increasing the pump-out capacity of tank farms, lowering the lines for irrigation canals in Saskatchewan, installing temporary pumping units to meet the increased required pumping rate, replacing the pipe under railroad crossings in Ontario with heavier wall pipe and pressure testing certain sections of the system to qualify these sections to operate at higher pressures. In all, 17 hydraulic sections of the pipe line system were successfully tested to operate at higher pressures, some using a static water test.

The gain in capacity which resulted from this testing amounts to 20,000 barrels per day from Edmonton to Regina; 3,000 b/d out of Regina; 4,000 b/d out of Superior; and 9,000 b/d from Sarnia to Toronto. Because of the high throughputs, however, it was not possible to test all the sections we had in mind. The refineries simply could not stand the down time.

1967 is a different story. As indicated in the Annual Report, 413 miles of 34″ loops are being constructed between Edmonton and Superior; 57 miles of 20″ loops are being constructed between Sarnia and Toronto; and 56 pumping units total-

ling over 130,000 horsepower are being added to the system at a cost of $71 million. When these projects are added to the automation program and other items that were not completed in 1966, it means that in 1967, some 82 construction projects will be underway at one time or another. Just finding the necessary inspectors (about 100) has been no small job and the engineering department has certainly not been complaining about lack of work.

But we now have our permit from the National Energy Board, the 110,000 tons of pipe worth $30 million is being rolled, the major items of equipment have all been ordered, the pipe laying contracts have all been awarded, five of them, and with any luck we should complete most of it, and certainly the looping, before the snow flies. We have to. The additional capacity is needed to meet 1968 requirements.